

Speech by

Mr. Benny Popoitai, Acting Governor

On behalf of

Mr. Ian Ling Stuckey, MP

Treasurer

at the Occasion of **The Launch of the Credit Guarantee Corporation**

Tuesday, 29th March 2022, APEC Haus

Acknowledgements:

- Hon. James Marape, Primes Minister,
- Board Members of CGC,
- Chairman and Board Members and Management of the Bank of PNG,
- SME Accelerator Program Manager, Mr. Dominic Sikakau
- Representatives from Development Partners,
- Representatives from Financial Institutions,
- Invited Guests
- Ladies and Gentlemen

1.0 Introductions

1) Thank you for all for making time available in your busy schedule to attend the launch of the Credit Guarantee Corporation (CGC), the first for the country.

2) Our appreciation to the Government for the partnership with Bank of Papua New Guinea (Bank of PNG) to make this launch possible. This is a National Government initiative in partnership with the Bank of PNG to address some of the impediments to the micro small and medium (MSMEs') growth and development in PNG.

3) The establishment of the CGC and the guarantee facility is one of the key outputs of the SME Accelerator Program established by the Bank of PNG. The purpose of CGC is to ensure the credit risk is shared by the CGC and the participating financial institutions so that the institutions can be encouraged to make credit available to especially the MSMEs.

2.0 Background

4) Markets failures and imperfections such as information asymmetries, inadequacy or lack of recognized collateral, high transaction costs for small-scale lending, and perceptions of high risk, all of which lead to lack of access to credit for MSMEs. Despite adequate liquidity in PNG, financial institutions are often reluctant to lend to SMEs and when they do the high interest rates charges becomes a barrier for SMEs.

5) For long term sustainable financing and assistance to MSMEs the National Government has realized it had to intervene in the market through a credit schemes to provide third party credit risk mitigation to lenders to increase access to credit for MSMEs. This is evident in the BSP's Credit Enhancement Scheme and the National Development Bank's SME Funding.

6) In PNG various concepts and projects have been initiated to address constraints to MSMEs growth and development and especially access to credit however most were pilot programs supported by international donors and partners. The establishment of a new company specifically to focus on providing guarantees to financial institutions as well as provide advisory support services to MSMEs is a new development in the market.

7) In addition, the establishment of the CGC will help consolidate the various access to finance projects into more long-term and sustainable national program with appropriate institutional arrangement and mandates to coordinate efforts by all donors and government agencies in accelerating MSMEs growth and development, and to develop a holistic support mechanism to MSMEs through sustainable financing instruments and capacity building.

3.0 Alignment with Government Policies

8) The PNG Development Strategic Plan (DSP) 2010-2030 identified lack of access to credit and capital as one of the factors impeding growth of MSMEs in Papua New Guinea (PNG) and through the Medium Term Development Plan (MTDP) Goal of Wealth Creation, it specifically strategizes to establish the CGC.

9) The government envisions MSME sector to be a major contributor outside resource sector towards PNG becoming a middle-income country by 2030 and in the revised MSME Policy 2022 and MSME MTDP I 2022-2026, CGC is identified as one of the key strategies to facilitate the development of MSMEs in PNG especially to accommodate MSMEs through new products and services within the banking and financial sector.

10) The CGC will contribute to MSME MTDP I to:-

- (a) create 33% of the targeted number of MSMEs,
- (b) create 30% of the targeted formal employment contributions,
- (c) account for 10% of the national GDP, and
- (d) progressively contribute to improving the quality of lives of people.

11) In accordance with the recently amended Central Banking Act (CBA) Amendment of 2021, the CGC will contribute to the first objective of the CBA and specifically to “promoting employment and economic growth, especially of the non-mineral and non-petroleum sector.”

4.0 Credit Guarantee Corporation

12) The concept of risk sharing is not a new concept and has been tried and tested in various countries including in PNG where we have had various risk share facilities and projects. What is new in this instance is the establishment of a new company to focus on providing guarantees to financial institutions as well as provide advisory support services to MSMEs.

13) The CGC was set up following the World Bank principles for developing credit guarantee schemes for MSMEs and will serve different objectives:-

- for MSMEs CGC will provide access to finance by reducing collateral requirements, create credit or financial additionality and promote business development and growth,
- for financial institutions CGC will provide assured collateral and reduce their risks and improve capital adequacy ratio,
- for the Government GCG will ensure the MSMEs strategic intervention and policy objectives are met especially in relation to contribution to the GDP and creation of employment opportunities for our citizens.

14) Following the CGC set up we should now consolidated the various risk sharing facilities under the CGC to achieve a longer-term sustainable program. One of the facilities we hope will be transferred immediately to the CGC will be the Risk Share Facility set up under the previous Micro Finance Expansion Program.

5.0 Conclusion

15) To conclude, the main objective of the CGC is to ensure that our MSMEs can obtain financing for viable business investments and in particular to assist MSMEs that are otherwise creditworthy but do not have adequate collateral to obtain a loan at a reasonable interest rate. I am therefore hopeful that the provision of collateral and the reduction of risks to our financial institutions through guaranteed payment in case of default will lead to reduction in interest rate by our financial institutions.

16) Moreover, let me say it is pleasing to see this joint Bank of PNG and Government initiative directly addressing the first objective of the recently amended Central Banking Act of 2021, to promote employment and economic growth, especially of the non-mineral and non-petroleum sector.

17) Let me thank the financial institutions for taking part in this launch and encourage you all to utilize the services of the CGC as it rolls out its products and programs.

Thank you and God Bless Papua New Guinea.